

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	19 October 2023
Classification:	Public
Title:	Fund Financial Management
Wards Affected:	All
Policy Context:	Effective control over council activities
Financial Summary:	There are no immediate financial implications arising from this report.
Report of:	Phil Triggs Tri-Borough Director of Treasury and Pensions ptriggs@westminster.gov.uk 020 7641 4136

1. Executive Summary






- 1.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The top five risks are highlighted in the report below.
- 1.2 The cashflow forecast for the next three years has been updated, with actuals to 30 September 2023 for the Pension Fund bank account and cash held at custody (Northern Trust). The bank/cashflow position continues to be stable.

2. Recommendations

- 2.1 The Committee is asked to note the top five risks for the Pension Fund.
- 2.2 The Committee is asked to note the cashflow position for the Pension Fund bank account and cash held at custody, the rolling twelve-month forecast and the three-year forecast.

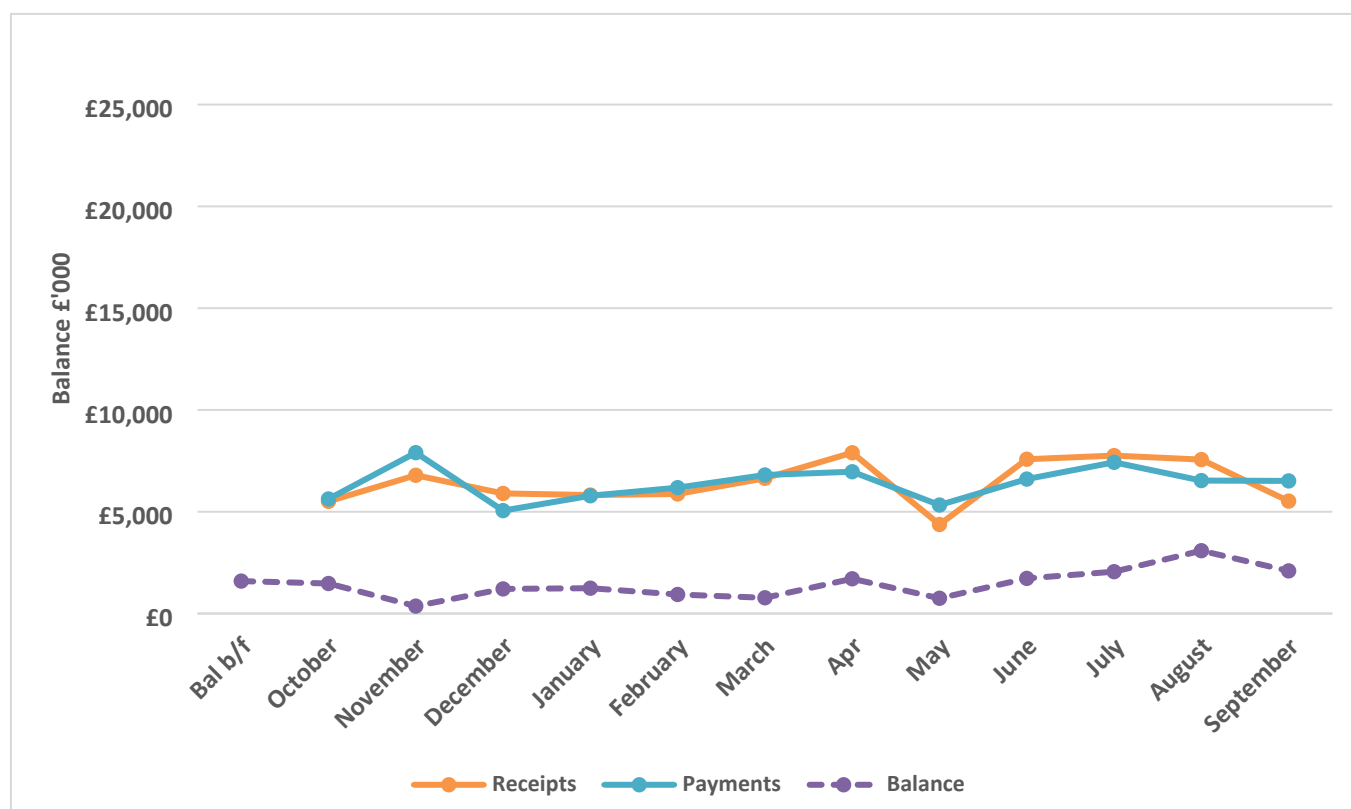
3. Risk Register Monitoring

3.1 The risk register is divided into two sections: investment and pensions administration. The risk groups have been updated to reflect the CIPFA guidance on risk categories. The current top five risks to the Pension Fund, as updated in September 2023, are highlighted in the table below:

CIPFA Risk Group	Risk Rank	Risk Description	Trending
Liability Risk	1 st /42	Price inflation is significantly more than anticipated in the actuarial assumptions. Inflation continues to remain high in the UK and globally due to labour shortages, supply chain issues, and the ongoing Russia-Ukraine conflict. CPI inflation was 6.7% as at August 2023, down from the peak of 11.1% in October 2022.	
Asset and Investment Risk	2 nd /42	Investment managers fail to achieve benchmark/outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.8m. The Fund returned 3.21% net of fees in the year to 31 August 2023, underperforming the benchmark by -2.50% net of fees.	
Asset and Investment Risk	3 rd /42	Increased risk to global economic stability, with the collapse of a number of banks since March 2023. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with volatility in oil and commodity prices, as well as the weakening of the pound. Leading to tightened financial conditions, reduced risk appetite and raised credit risks.	
Regulatory and Compliance Risk	4 th /42	The Department for Levelling Up, Housing and Communities (DLUHC) has proposed new regulations for Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate Related Financial Disclosures (TCFD). The first reporting year is now expected to be the financial year 2024/25, with the regulations now delayed. Therefore, the first reports will be required by December 2025.	
Liability Risk	5 th /42	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others. Current economic conditions will cause strain on smaller employers.	

4. Cashflow Monitoring and Forecasted Cashflows

- 4.1 The balance on the Pension Fund's Lloyds bank account as at 30 September 2023 was £2.1m. This account is the Fund's main account for day-to-day transactions, including member contributions and pension payments. Payments from the bank account will continue to exceed receipts on an annual basis. During the year, withdrawals from cash at custody are expected to take place to maintain a positive cash balance.
- 4.2 The graph shows changes in the bank balance from 1 October 2022 to 30 September 2023.



- 4.3 Payments and receipts have remained stable over the last 12 months. Officers continue to keep the cash balance under review and take action to maintain necessary liquidity. During the quarter, the Fund withdrew £6.0m from cash at custody to maintain a positive cash balance.
- 4.4 The Pension Fund held £40.6m in cash with Northern Trust as at 30 September 2023. Fund manager distributions and proceeds/withdrawals from the sale of assets and purchases of assets take place within the Fund's custody account at Northern Trust. The following table shows the cash inflows and outflows within cash at custody for the three-month period from 1 July 2023 to 30 September 2023.

Cash at Custody	Jul	Aug	Sep
	£000	£001	£002
	Actual	Actual	Actual
Balance b/f	11,540	19,425	17,208
Distributions	3,294	700	6,411
Sale of assets	90,000	142	17,058
Interest	(4,548)	134	1,445
Cash withdraw	(3,000)	(3,000)	0
Foreign Exchange Gains/Losses	(178)	(77)	69
Purchase of Assets	(75,349)	0	(1,420)
Miscellaneous	0	0	(0)
Management fees	(2,334)	(116)	(207)
Balance c/f	19,425	17,208	40,564

- 4.5 At the Committee meeting on 29 June 2023, the Committee elected to transition 5% from equities into renewable infrastructure. This transition took place during July 2023.
- 4.6 The total cash balance, including the Pension Fund Lloyds bank account and cash at custody, is shown below for the period from 1 July 2023 to 30 September 2023. The total cash balance as at 30 September 2023 was £42.7m.

Cash at custody & Bank account	Jul	Aug	Sep
	£000	£000	£000
	Actual	Actual	Actual
Balance b/f	13,266	21,481	20,294
Cash outflows	(89,838)	(6,725)	(8,142)
Cash inflows	98,053	5,538	30,506
(Withdraw)/Deposit from custody to bank account	(3,000)	(3,000)	0
Withdraw/(Deposit) from bank account to custody	3,000	3,000	0
Balance c/f	21,481	20,294	42,658

- 4.7 The following table illustrates the expected cashflow for the 12-month period from 1 April 2023 to 31 March 2024 for the Pension Fund Lloyds bank account. Forecast cashflows are estimated using the previous year's actual cashflows, which are inflated and then divided equally over the 12 months. Pension payments are linked to CPI-inflation.

Current Account Cashflows for period April 2023 - March 2024:

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Rolling Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
	Actual	Actual	Actual	Actual	Actual	Actual	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	
Balance b/f	774	1,707	751	1,726	2,056	3,087	2,095	2,513	1,931	2,349	2,767	2,185	£000s
Contributions	6,298	993	3,970	3,810	3,795	4,050	3,759	3,759	3,759	3,759	3,759	3,759	45,473
Various Receipts ¹	601	380	611	948	767	1,473	872	872	872	872	872	872	10,014
Pensions	(3,813)	(3,923)	(3,913)	(3,977)	(3,964)	(3,956)	(3,767)	(3,767)	(3,767)	(3,767)	(3,767)	(3,767)	(46,149)
HMRC Tax Payments	(744)	(795)	(916)	(890)	(853)	(1,192)	(681)	(681)	(681)	(681)	(681)	(681)	(9,474)
Transfers out, lump sums, death grants, refunds & misc. payments	(2,164)	(455)	(1,744)	(2,552)	(1,530)	(1,349)	(1,572)	(1,572)	(1,572)	(1,572)	(1,572)	(1,572)	(19,226)
Expenses	(245)	(157)	(32)	(9)	(185)	(18)	(194)	(194)	(194)	(194)	(194)	(194)	(1,811)
Net cash in/(out) in month	(67)	(3,956)	(2,024)	(2,670)	(1,969)	(991)	(1,582)	(1,582)	(1,582)	(1,582)	(1,582)	(1,582)	(21,171)
Withdrawal/(deposit) from custody	1,000	3,000	3,000	3,000	3,000	0	2,000	1,000	2,000	2,000	1,000	2,000	23,000
Balance c/f	1,707	751	1,726	2,056	3,087	2,095	2,513	1,931	2,349	2,767	2,185	2,602	

- 4.8 The three-year cashflow forecast for 2023/24 to 2025/26 for the Pension Fund's Lloyds bank account is shown below. The forecasts are calculated using the previous year's cashflows which are then inflated, with pensions payable linked to CPI-inflation.

Three Year Cashflow Forecast for 2023/24 to 2025/26

	2023/24	2024/25	2025/26
	£000	£000	£000
	F'cast	F'cast	F'cast
Balance b/f	774	2,601	2,008
Contributions	45,473	46,383	47,311
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	10,014	10,515	10,725
Pensions	(46,149)	(48,456)	(49,426)
HMRC Tax	(9,474)	(9,947)	(10,146)
Transfers out, lump sums, death grants, refunds & misc. payments	(19,226)	(20,187)	(20,591)
Expenses	(1,811)	(1,901)	(1,939)
Net cash in/(out) in year	(21,173)	(23,593)	(24,066)
Withdrawal/(deposit) from custody cash	23,000	23,000	23,000
Deficit Recovery Contributions	0	0	0
Balance c/f	2,601	2,008	942

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

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BACKGROUND PAPERS: None.

APPENDICES:

Appendix 1: Tri-Borough Risk Management Scoring Matrix

Appendix 2: Pension Fund Risk Register Review at September 2023